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Singapore Management University

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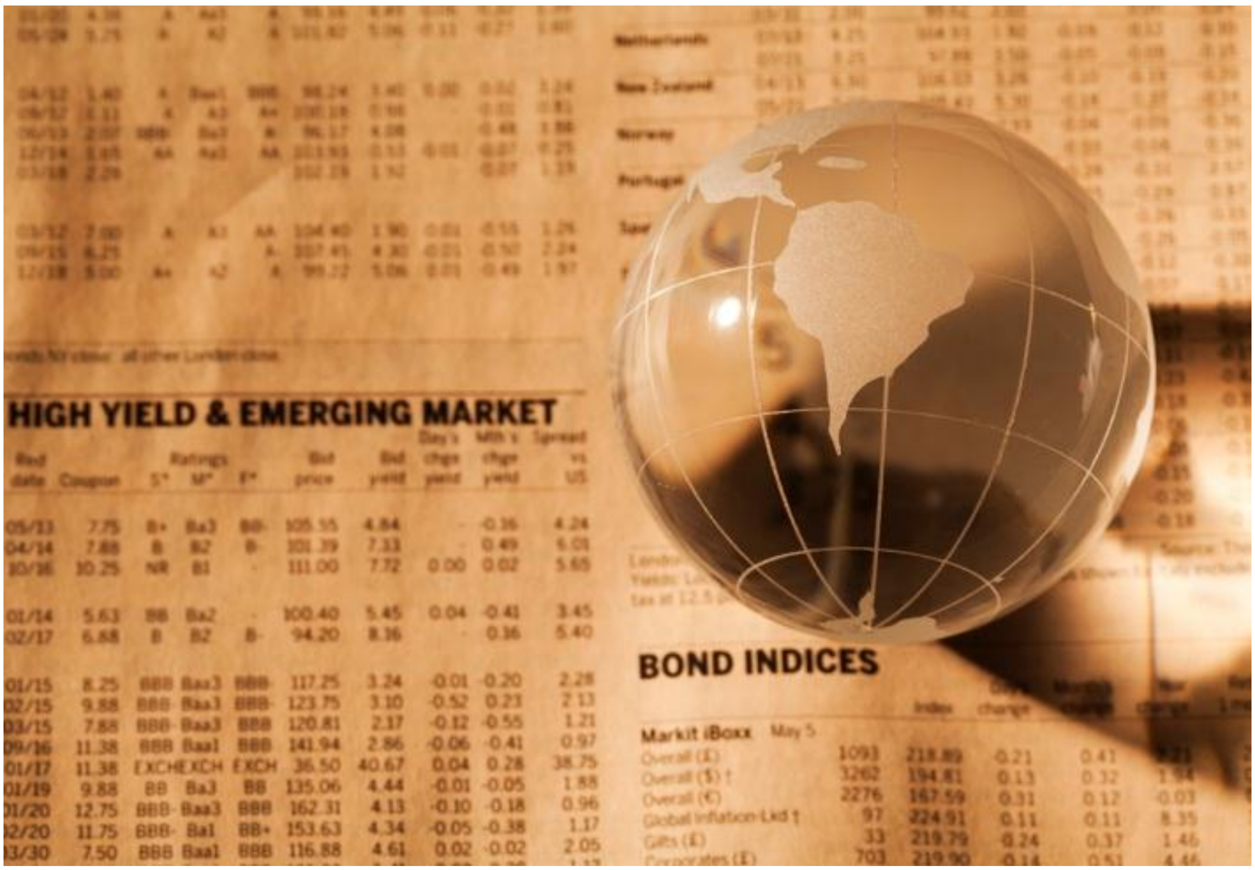

Emerging markets and their institutional voids offer great growth potential for corporates and organisations seeking an exit strategy from the gloomy European market, says Harvard professor Tarun Khanna.

‘Institutional voids’, a phrase coined by Khanna in his book *Winning in Emerging Markets*, refers to the absence of intermediaries like market research firms and credit card systems to efficiently connect buyers and sellers. This creates daunting obstacles for companies trying to operate in emerging markets. According to Khanna, understanding these voids – and learning how to work with them in specific markets – is the key to success.

Speaking to Perspectives@SMU on the sidelines of the SMU Presidential Distinguished Lecturer Series recently, Khanna argued that rather than defining emerging markets by a particular size or growth qualifications, “the primary exploitable characteristic of these markets is their lack of developed infrastructures and institutions that enable efficient business operations, factors that are taken for granted in advanced economies.”

In essence, institutional voids occur whenever these ‘supporting institutions’ do not exist and operating without them will pose specific challenges — as well as major opportunities.
Khanna says that the basic conceptual framework involves finding a deficiency that can be accurately considered a void and an entrepreneur who can fill the void. Matching the two is difficult as market deficiencies will vary by industry, selling, area, or region.

Growth models

In his opinion, two general models can be used when it comes to exploring growth through filling institutional voids. The first is to find something that’s missing in the country’s regime that an entrepreneur will then seek to remedy. “This is filling the institutional void in action,” he says.

He cites ‘Aspiring Minds’ an employability assessment company of which he is a founding investor and mentor, which was started by two young men from MIT and IIT (India). It was based on the premise that corporates are always complaining about high attrition rates, salary demands and scarcity of qualified staff; while job seekers complained that they couldn’t find jobs. The conclusion was inescapable: “There were too many people fishing in the same pond,” says Khanna.

The two entrepreneurs then designed cheap software to provide a better fit between corporates and job seekers (the ‘right’ individual rather than the ‘best’ individual) together with assessments, and then went and sold it to the market. The missing institutional void, he explains, was a mechanism capable of matching talent and opportunity.

The second model, says Khanna, is to take it as a given that there will always be things that are missing in some regions and that it will take quite a while for any remedy to come into being. “Here you accept the situation for what it is,” he says, quoting a hypothetical call by officials to establish an equity market which is perceived to be an institutional void. “But the regulator can’t just snap his fingers and create one by fiat. Markets take decades to develop.”

So what can an entrepreneur do in the interim? He offers: “Develop business models that are less susceptible to problems.”

A mindset presumption

The methods used in developed markets do not necessarily work in emerging markets as giants like Carrefour, McDonalds and others have discovered. New sets of strategies, insights and assumptions are needed. And sometimes, says Khanna, even the strategies used in China and India may not prove appropriate in markets like Myanmar, Vietnam, Russia, South Africa and Latin America.

Both multinational and indigenous companies face similar challenges in dealing with emerging markets, although the focus will be different, the response will depend on the type and class of company. “It’s a mindset presumption,” he elaborates.

The ‘cookie cutter’ approach, for example, is tempting for multinationals from advanced economies as nearly every company will want to recreate their own business models. The evolution of the business model therefore takes a long time and is often the source of tension between headquarters and the local office, he adds.

Meanwhile those from the emerging world will go from being a big fish in a small pond to being a small fish in a big pond, which also takes time and a shift in mindset.

China vs India

Mirror images of one another in so many ways, China favours multinationals over indigenous private companies, while India advantages its locals and shuns foreigners. However, they do share a commonality: both have institutional voids.

One of these is access to information. In China, he says, information is ‘noise-free’ which is to say it’s biased, with few people going against mainstream thinking. In India, information flows freely, everyone expresses their point of view “loudly and noisily” – and they’re free to do so, but when it comes to bias, “it’s up to you to decide which view is better”.